

Legislative Audit Division

State of Montana



Report to the Legislature

January 2003

Financial Audit

For the Fiscal Year Ended June 30, 2002

Montana State University

We performed a financial audit of Montana State University's consolidated financial statements for the fiscal year ended June 30, 2002. These financial statements present the financial position, the changes in financial position, and the cash flows, on a consolidated basis, of all four campuses affiliated with Montana State University: Montana State University-Bozeman; Montana State University-Billings; Montana State University-Northern (located in Havre); and Montana State University College of Technology-Great Falls. This report contains an unqualified opinion on those financial statements and accompanying notes for fiscal year 2001-02. The opinion means the reader may rely on the financial statement information presented.

This is the first audit performed to attest to the fairness of the consolidated financial statements of Montana State University. In addition, this financial statement presentation is the result of implementing Governmental Accounting Standards Board Statements No. 34 and No. 35, which require financial statements different than those presented in the past. Audit recommendations, if any, identified during this audit will be included in the biennial financial-related audit of Montana State University, expected to be issued prior to December 31, 2003.

Direct comments/inquiries to:
Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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FINANCIAL AUDITS

Financial audits are conducted by the Legislative Audit Division to determine if the financial statements included in this report are presented fairly and the agency has complied with laws and regulations having a direct and material effect on the financial statements. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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James Gillett, Financial-Compliance Audit

January 2003

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on Montana State University's (university) consolidated financial statements for the fiscal year ended June 30, 2002. The university requested this audit to provide timely audited financial statements to interested parties. The objective of our audit was to determine if the university's financial statements present fairly its financial position, its changes in financial position, and its cash flows as of, and for the fiscal year ended, June 30, 2002. This objective included determining the university's compliance with laws and regulations having a direct and material impact on the financial statements.

The university financial statements report assets of approximately \$353.8 million, liabilities of approximately \$166.7 million, operating revenues exceeding \$220 million and operating expenses of nearly \$299 million. Net non-operating revenues and expenses, gains and capital contributions were slightly over \$91 million. Of this amount, state appropriations accounted for approximately \$79.5 million. Cash flows for fiscal year 2001-02 consisted of the following: \$58 million used in operations; \$85 million provided by non-capital financing; \$20.7 million used in capital financing; and \$2.9 million provided by investing activities. The term "used in" refers to net cash outflows, while "provided by" refers to net cash inflows.

The Board of Regents of Higher Education approved the current Montana University System structure in January 1994. Montana State University consists of campuses located in Bozeman, Billings, Havre, and Great Falls. All campuses are accredited by the Commission on Colleges of the Northwest Association of Schools and Colleges. The Montana State University campuses provide a diversity of undergraduate and graduate academic and two-year vocational/technical programs to students.

Montana State University-Bozeman was founded in February 1893 as the Agricultural College of the State of Montana. It is a land-grant institution, authorized by the Morrill Act of 1862, and receives part of its support from land-grant income. The campus offers four-year undergraduate programs along with master's and doctoral graduate programs. It includes the colleges of Agriculture, Arts and Architecture, Business, Education, Health and Human Development, Engineering, Letters and Science, Nursing and Graduate Studies. The Bozeman campus also includes the Extension Service, the Agricultural Experiment Station, and the Fire Services Training School, which have facilities located in or near cities or towns throughout Montana.

Montana State University-Billings, established in 1927, consists of five colleges: the College of Arts and Sciences; the College of Business; the College of Education and Human Services; the College of Technology; and the College of Professional Studies and Lifelong Learning. MSU-Billings offers a full complement of one-year and two-year certificate programs, associate degrees, and bachelor's and master's degrees, as well as pre-professional academic offerings in a number of fields.

Montana State University-Northern is a regional, multi-purpose educational center, serving students who seek both a technical and liberal arts education. It offers courses at the campus in Havre and at facilities in Great Falls. This campus offers associate, bachelor's, and master's degrees. A master's degree program is offered in education, with options in counseling and development, elementary education, vocational education, and general science.

Montana State University-Great Falls College of Technology was established in 1969 and offers instruction leading to certificates in one-year programs and associate of applied science degrees in two-year programs in vocational-technical trades and industry. Programs include practical nursing, office/secretarial, interior design technology, computer and information sciences, various health-related programs, auto body repair and refinishing, and business management/entrepreneurship.

A list of Appointed and Administrative officials having oversight responsibilities with respect to Montana State University can be found on page i.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial statements and accompanying notes. We issued an unqualified opinion on the university's consolidated financial statements, which means the reader can rely on the presented information.

This report does not contain any recommendations to the university. The implementation status of recommendations made to the university in the prior audit report (#01-10) and any recommendations resulting from this financial audit will be addressed in the university's biennial financial-related audit expected to be issued prior to December 31, 2003. The university's response to this report is on page B-1.

We thank President Gamble and his staff for their cooperation and assistance during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Board of Regents of Higher Education

Judy Martz, Governor*
Linda McCulloch, Superintendent of Public Instruction*

Richard Roehm, Chair
Lynn Morrison-Hamilton, Vice Chair
Christian Hur, Student Regent
Edwin H. Jasmin, Regent
John Mercer, Regent
Mark Semmens, Regent
Lila Taylor, Regent

*Ex officio members

Commissioner of Higher Education

Richard A. Crofts Commissioner of Higher Education (through February 1, 2003)
(Ex Officio Member of the Board of Regents)

Joyce Scott Deputy Commissioner for Academic and Student Affairs

Rod Sundsted Associate Commissioner for Fiscal Affairs

Laurie Neils Director of Budget and Accounting

Montana State University-All Campuses

Geoffrey Gamble President
Virginia Key Internal Auditor

Montana State University-Bozeman

David Dooley Provost and Vice President for Academic Affairs
Craig Roloff Acting Vice President for Administration and Finance
Thomas McCoy Vice President for Research and Creative Activities
Leslie Taylor Legal Counsel
Laura Humberger Controller

Montana State University-Billings

Ronald P. Sexton Chancellor
Janie C. Park Provost and Academic Vice Chancellor
Curt Kochner Interim Vice Chancellor for Student Affairs
Terrie Iverson Administrative Vice Chancellor
LeAnn Anderson Director of Financial Services
Jim Nielson Director of Business Services
Trudy Collins Budget Officer and Internal Audit

Montana State University-Northern

Alex Capdeville Chancellor
Roger Barber Provost and Senior Vice Chancellor
Chuck Jensen Vice Chancellor Finance & Administration/Student Affairs
Carrie Molitor Controller

Appointed and Administrative Officials

**Montana State University-
Great Falls College of
Technology**

Mary Moe
Mary Ellen Baukol
Ed Binkley

Dean
Assistant Dean for Business and Finance
Controller

Members of the audit staff involved in this audit were Laurie Barrett, Angela Lang, Alexa O'Dell, and Vickie Rauser.

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Consolidated Statement of Net Assets of Montana State University, a component unit of the state of Montana, as of June 30, 2002, and the related Consolidated Statement of Revenues, Expenses and Changes in Net Assets and Consolidated Statement of Cash Flows for the fiscal year ended June 30, 2002. The information contained in these financial statements is the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University as of June 30, 2002, and its changes in financial position, and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages A-3 through A-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in note 1, Montana State University has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 35, *Basic Financial*

Room 160, State Capitol Building PO Box 201705 Helena, MT 59620-1705
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Statements and Management's Discussion and Analysis for Public Colleges and Universities, as amended by GASB Statements No. 37 and No. 38.

As discussed in note 1, Montana State University changed its reporting entity definition in fiscal year 2001-02.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 22, 2002

Montana State University

Management's Discussion and Analysis

As of and For the Year Ended June 30, 2002

Montana State University is a modern, comprehensive land grant university that serves state, national and international communities by providing academic instruction, conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to the people of Montana. The University encompasses four campuses located in Bozeman, Billings, Great Falls and Havre, as well as the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School. The University operates throughout Montana's 145,556 square miles of urban and rural communities housing a population of 915,500.

Using the Annual Financial Report

This report includes management's narrative description of the University's financial condition, results of operations, and cash flows. It is a required component of an annual financial report prepared in accordance with generally accepted accounting principles. The discussion is designed to assist readers in understanding the accompanying financial statements through an objective and easily readable analysis of the University's financial activities, based on currently known facts and conditions.

The discussion and analysis which follow provide an overview of the University's financial activities for the fiscal year ended June 30, 2002. **Because this is the first year that the University's financial activities are being presented in a new format, only one year of information is presented and discussed.** In the future, two years of data will be presented in a comparative format.

Financial Summary

The newly formatted financial statements show an operating loss of \$78.6 million, offset by state appropriations and other non-operating revenues of \$83.6 million, bringing the University to income before capital and other items of \$5.0 million. "Income before capital and other items" can be considered a measure of the University's normal, recurring activities, and is strong at 2.3% of operating revenues. In the future, this ratio may decline as the University expends certain of its earmarked unrestricted funds, and net assets are reduced accordingly.

Sources of recurring revenues are generally expected to remain strong, with a trend toward higher levels of University-generated revenues and lower levels of state funding. Like many other institutions, the University has experienced a decline in investment income, which lags significantly behind prior years, and is expected to remain flat or continue to decline in the near term. During 2002, investment income constituted approximately 1% of the University's total revenues, at \$2.7 million.

Expenses are expected to increase as qualified faculty and staff are recruited and retained, and instructional and research programs continue to grow. The University is dedicated to student access and success, and is currently developing a strategy for managing its modest growth.

Significant Financial Statement Changes

The financial statements have been prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements— and Management's Discussion and Analysis for Public Colleges and Universities*. These financial statements differ significantly, in both the form and the accounting principles utilized, from financial statements presented in prior years. The financial statements presented in prior years focused on the accountability of fund groups, while the GASB 35 statements focus on the entire University's financial condition, results of operations and cash flows. Accountability to outside funding sources is maintained through the segregation of what were previously referred to as "fund balances" into four distinct categories of net assets.

The three new financial statements (the Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows) present financial information in a form similar to that used by private enterprises, and were designed to more simply present the University's financial information. They are prepared using the accrual basis of accounting, whereby revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

The **Statement of Net Assets** is presented in a classified format, which differentiates between current and non-current assets and liabilities, and also categorizes Net Assets (formerly called "Fund Balance") into four categories:

- Invested in Capital Assets, Net of Related Debt
- Unrestricted
- Restricted— Expendable
- Restricted— Non-Expendable

The **Statement of Revenues, Expenses and Changes in Net Assets** presents the revenues earned and expenses incurred during the year, classifying activities as either "operating" or "nonoperating." This distinction results in operating deficits for those institutions that depend on State aid and gifts, because the GASB 35 reporting model classifies state appropriations and gifts as nonoperating revenue. The utilization of capital assets is reflected in the financial statements as depreciation expense, which allocates the cost of assets over their expected useful lives.

The **Statement of Cash Flows** presents information related to cash inflows and outflows, categorized by operating, noncapital financing, capital financing, and investing activities. The reconciliation of operating loss to cash used in operations explains the relationship between the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, in that increases and decreases in operating assets often require the use or receipt of cash, but do not result in recognition of a revenue or an expense.

Significant accounting changes made to comply with the GASB 35 standards are as follows:

- Certain assets not previously capitalized are now required to be capitalized, in accordance with State capitalization thresholds. Infrastructure assets, which for the University consist primarily of steam tunnels and utility distribution networks, were added to the University's

capital asset records. The change resulted in an addition of \$20.2 million to the University's capital asset balances.

- Depreciation and amortization of capital assets is now recorded as an operating expense, whereas previously, the purchase of assets was recorded as an expense upon asset acquisition. The change resulted in \$223.9 million of retroactive depreciation, and \$18.2 million of current year expense.
- Cash received for sponsored programs that is not expended by the end of a fiscal year is now recorded as deferred revenue, while previously it was recognized as revenue when received. The change resulted in a \$6.0 million decrease to the University's net assets, which will instead be recognized as revenue as the funds are expended in accordance with the sponsors' wishes.
- Scholarships and fellowships that are directly applied to student accounts are now shown as a reduction of revenues, while stipends and other payments made directly to students continue to be presented as scholarship and fellowship expenses. This treatment resulted in \$14.3 million of what would have previously been reported as revenues, now being offset, or "netted", against a like amount of scholarship and fellowship expenses. Accordingly, it may appear at first glance that revenues decreased from fiscal year 2001 to 2002, when in fact the "decrease" results from this change in accounting principle.

Montana State University
Management's Discussion and Analysis
As of and For the Year Ended June 30, 2002

(continued)

Condensed Statement of Net Assets

ASSETS

Current assets	\$ 102,919,449
Capital assets, net	229,376,181
Other noncurrent assets	21,539,353
Total assets	<u>\$ 353,834,983</u>

LIABILITIES

Current liabilities	\$ 43,290,443
Noncurrent liabilities	123,387,460
Total liabilities	<u>\$ 166,677,903</u>

NET ASSETS

Invested in capital assets, net	\$ 132,371,976
Restricted, expendable	4,507,916
Restricted, non-expendable	4,721,965
Unrestricted	45,555,223
Total net assets	<u>\$ 187,157,080</u>

Current assets include the University's cash, accounts, grants and loans receivable, inventories, and prepaid expenses expected to benefit the University within one year. Accounts and grants receivable result primarily from student accounts and from sponsored projects which are payable on a cost-reimbursement basis. Prepaid expenses result largely from library material subscriptions paid prior to June 30, 2002. Inventories include livestock, as well as items on hand for resale in bookstores, food services and other University departments.

Capital assets, net increased \$1.7 million, resulting from asset additions of \$19.9 million, offset by depreciation and amortization expense of \$18.2 million. Increases included \$9.0 million of construction project additions, a large portion of which was contributed by the State pursuant to its long range building program. Additions included Bozeman's Renne Library renovation and Billings' Liberal Arts building renovation. In addition, approximately \$2.8 million in library materials were added, \$5.8 million in furniture and equipment were acquired, and \$1.7 million in buildings and improvements were recorded. Equipment acquisitions related largely to the University's research and instruction programs, and included several acquisitions of scientific equipment.

Other noncurrent assets include endowment fund assets, student loans receivable, and investments expected to mature over a period longer than one year.

Current liabilities include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, and debt principal payments due within one year.

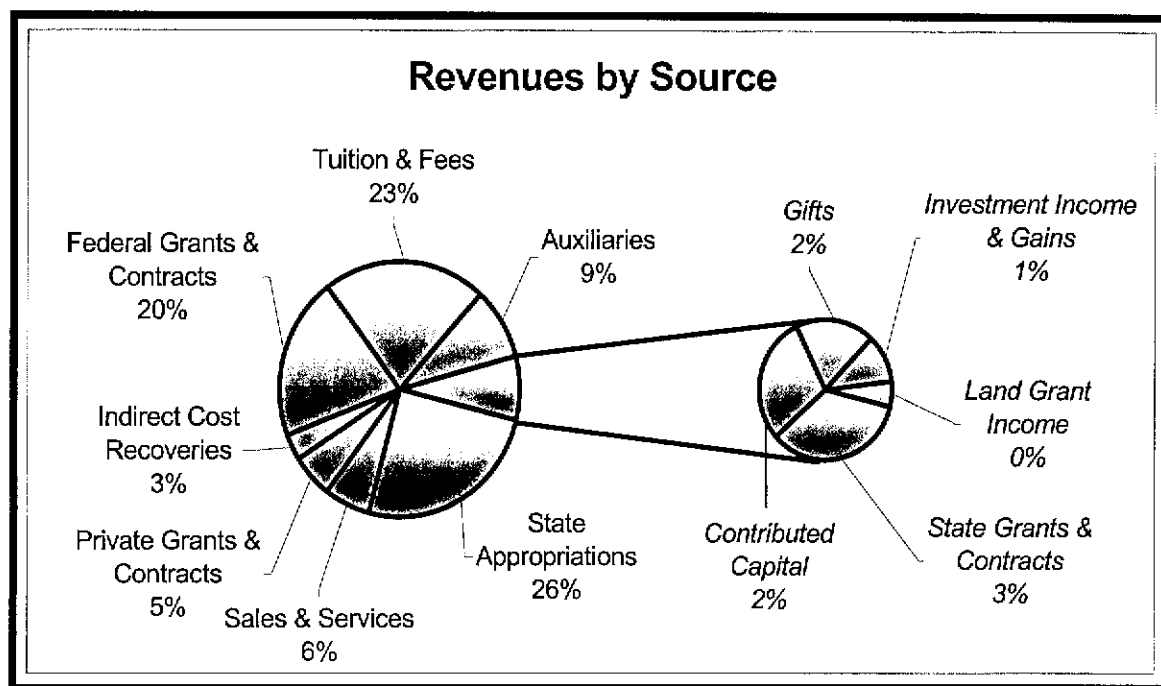
Noncurrent liabilities include debt principal payments and the amount of compensated absence liability estimated to be payable after a one-year period, as well as amounts which would be payable to the Federal government should the University choose to cease participation in the Federal Perkins Loan or Nursing Loan programs.

Amounts **invested in capital assets, net of related debt**, consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets.

Restricted, expendable net assets represent balances that may be expended by the University, but only in accordance with restrictions imposed upon the University by an external party, such as a donor or through a legislative mandate. The University's most significant restricted, expendable balance relates to funds held by trustees in accordance with bond covenants, which may only be expended for the renewal and replacement of assets whose revenues are pledged as security for the repayment of debt.

Restricted, non-expendable balances must be held in perpetuity, and include endowment principal as well as the University portion of student loans receivable under the Federal Perkins and Nursing Loan programs.

Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for contractual payments such as debt service and grant-funded employee termination payouts, funds earmarked for facility renewal and replacement, and student organization funds.



Condensed Statement of Revenues, Expenses and Change in Net Assets

Operating revenues	\$ 220,145,803
Operating expenses	(298,755,431)
Operating loss	(78,609,628)
Non-operating revenues, net	83,591,748
Income before capital and other items	4,982,120
Capital contributions and gains	7,459,614
Increase in net assets	12,441,734
Net assets, beginning of year (as restated)	174,715,346
Net assets, end of year	\$ 187,157,080

Operating revenues are generated through the provision of goods and services, and include tuition and fees, grant and contract revenues, and sales and service revenue generated by student housing, bookstores, and other enterprises. Student enrollment drives a large portion of operating revenues, and also affects the University's level of State funding. Trends indicate that in the future, a greater proportion of revenues will be obtained from students and other sources to offset a proportional decrease in available state funding.

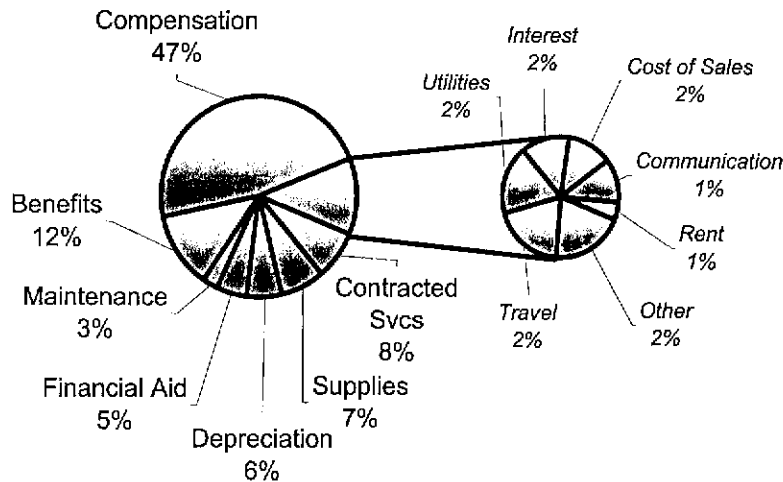
Annual Student Enrollment Data (FTE)

Montana residents	
Undergraduate	12,879
Graduate	1,007
Non-residents	
Undergraduate	2,007
Graduate	231
Western Undergraduate Exchange	683
Total	16,806

Non-operating revenues: Like most public institutions, the University receives significant non-operating revenues, including state appropriations, which offset the loss generated by operating activities. During 2002, the operating loss of \$78.6 million was offset by \$83.6 million in net non-operating revenues, comprising \$79.5 million in State appropriations, \$1.5 million of land grant income, \$4.9 million of gifts, and \$2.7 million of investment income, offset by \$4.9 million of interest expense.

Capital contributions and gains include assets contributed to the University pursuant to the State's long range building program, as well as capital asset contributions from other entities. Also included are gains which were realized upon the disposal of capital assets.

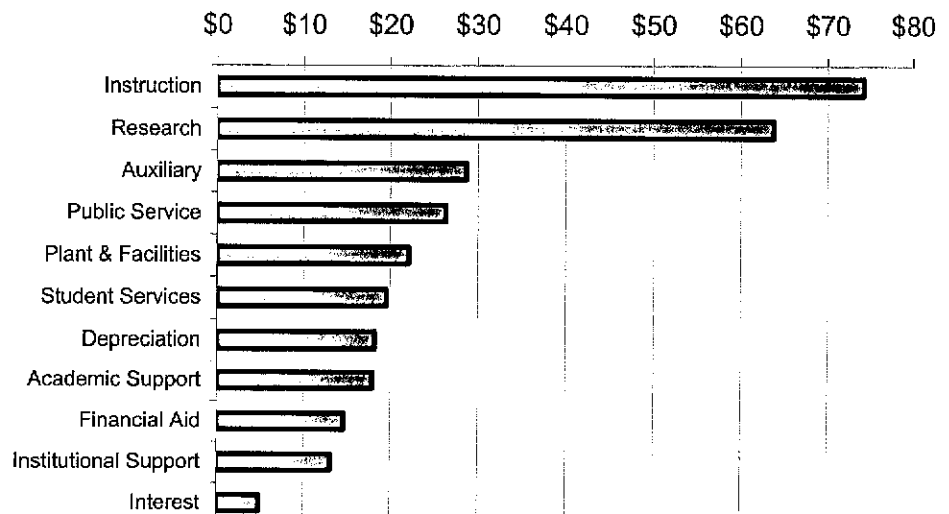
Expenses by Classification



As shown at left, a significant portion of the University's expenses relate to employee compensation and benefits. This relationship is expected to continue, and the proportion may grow as compensation, insurance and other payroll-related costs increase. Due to the volatility of the utilities industry, utilities and plant-related expenses may fluctuate. A concerted effort is being made to ensure access to all qualified applicants, through endowed scholarships; as such, financial aid expenses are expected to increase.

As illustrated in the graph at right, instruction and research activities together constitute nearly half of the University's expenses. The cost of providing auxiliary services, consisting largely of dining and residence hall operations, make up the 3rd- largest cost category. Public service, which includes the activities of extension services throughout Montana as well as public television and radio stations and a regional museum, is the 4th largest program.

Expenses by Program (in millions)



Condensed Statement of Cash Flows

Cash provided/(used) by:	
Operating activities, net	\$ (58,012,137)
Noncapital financing activities, net	85,080,439
Capital and related financing activities, net	(20,702,536)
Investing activities, net	2,923,894
Net increase in cash	9,289,660
Cash and cash equivalents, beginning of year	63,191,699
Cash and cash equivalents, end of year	<u>\$ 72,481,359</u>

Operating activities used \$58.0 million in cash. The use of cash resulted from the operating loss of \$78.6 million, offset by non-cash expenses of \$18.9 million (primarily depreciation and amortization). In addition, \$4.9 million was received to reduce accounts and grants receivable, and a decrease in accounts payable and accrued liabilities used \$2.3 million of cash. Other, less significant, sources and uses of cash contributed to the overall decrease in operating cash.

Noncapital financing activities provided \$85.0 million in cash, resulting from \$79.5 million in state appropriations, \$1.5 million of land grant income, and \$4.8 million of gift income, as well as other, less significant sources and uses of cash.

Capital and related financing activities used \$20.7 million in cash, resulting primarily from \$11.4 million expended to acquire capital assets, \$4.7 million in debt principal payments, and \$5.4 million in cash paid for interest, primarily related to bond indebtedness.

Investing activities provided \$2.9 million.

Bonds, notes, and capital Leases

As of June 30, 2002, the University had approximately \$97.0 million in outstanding bonds, notes, and capital lease principal, a

decrease of \$3.9 million compared with June 30, 2001. The change resulted from new borrowings of \$1.2 million, bond discount amortization of \$0.5 million, and repayments of \$5.6 million. The current state of the economy may present conditions which are favorable for refinancing all or a portion of the University's long-term debt; however, management has not made a decision regarding such a transaction.

Economic Outlook

The State of Montana is experiencing economic uncertainty, as is the rest of the nation. The State's January – April 2003 legislative session is expected to be difficult, in terms of allocating the State's scarce resources. According to the Legislative Fiscal Division (LFD), the largest source of general fund revenue is Montana's state income tax. Because of this, economic trends or developments affecting employment and income levels significantly influence the amount of funding available for governmental services.

The LFD has indicated that the economic outlook for the State is very fragile. Employment and wage indicators indicate slow growth in the near term, with the prospect of gradual recovery by 2005. At the same time, the demand for human services generally increases in a sluggish economy, contributing to the State's difficult process of allocating scarce resources.

In the recent past, the University has combined spending reductions with increased student revenues to maintain quality programs in light of flat or decreased available State funding. Accountability and stewardship of the University's resources are stressed by top management, as is excellence in the programs offered. University management will continue to determine the proper balance between spending cuts and revenue increases, to ensure that quality programs remain, while access to the University is not unduly limited by the cost of attendance.

Montana State University
a component unit of the State of Montana
Consolidated Statement of Net Assets
As of June 30 2002

ASSETS

Current assets:

Cash and cash equivalents	\$	72,481,359
Accounts and grants receivable, net		20,663,211
Receivable from primary government		1,360,269
Loans receivable		3,353,199
Inventories		2,876,093
Prepaid expenses		2,185,318

Total current assets		102,919,449
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Noncurrent assets:

Restricted cash and investments		1,513,259
Loans receivable, net		17,764,998
Investments		2,261,096
Capital assets, net		229,376,181

Total noncurrent assets		250,915,534
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Total assets	\$	353,834,983
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LIABILITIES

Current liabilities:

Accounts payable and accrued liabilities	\$	17,694,486
Payable to primary government and other component units		1,269,926
Property held in trust for others		737,636
Deferred revenues		8,485,828
Compensated absences		9,874,833
Current portion of bonds payable		4,180,000
Current portion of notes and capital lease obligations		1,047,734

Total current liabilities		43,290,443
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Noncurrent liabilities:

Bonds payable		88,676,065
Notes and capital lease obligations		3,100,415
Compensated absences		11,798,722
Due to Federal government		19,812,258

Total noncurrent liabilities		123,387,460
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Total liabilities		166,677,903
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NET ASSETS

Invested in capital assets, net of related debt		132,371,976
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Restricted - nonexpendable:

Endowments		1,514,354
Loans		3,207,611

Restricted - expendable:

Scholarships		670,299
Research and other		744,992
Loans		184,791
Renewal and replacement of plant facilities		2,907,834

Unrestricted (Note 13)		45,555,223
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Total net assets		187,157,080
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Total liabilities and net assets	\$	353,834,983
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Montana State University

a component unit of the State of Montana

Consolidated Statement of Revenues, Expenses and Changes in Net Assets

As of and for the Year Ended June 30 2002

OPERATING REVENUES

Tuition and fees (net of \$11,452,696 scholarship discount)(\$4,862,827 pledged as security for repayment of bonds)	\$ 69,257,991
Federal grants and contracts	64,753,812
State grants and contracts	8,667,469
Non-governmental grants and contracts	17,087,627
Indirect cost recoveries	10,994,742
Sales, services and other operations of educational activities	20,033,549
Sales and services of auxiliary enterprises (net of \$2,894,463 scholarship discount); (\$1,644,658 gross and \$3,830,163 net revenues are pledged as security for repayment of bonds)	29,316,182
Interest earned on loans	34,431
Total operating revenues	220,145,803

OPERATING EXPENSES

Compensation and benefits	180,434,161
Operating expenses (Note 14)	85,398,887
Scholarships and fellowships (net of \$14,347,159 scholarship discount)	14,674,569
Depreciation and amortization	18,247,814
Total operating expenses	298,755,431

Operating loss	(78,609,628)
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NONOPERATING REVENUES (EXPENSES)

State appropriations	79,497,987
Land grant income (pledged as security for repayment of bonds)	1,467,092
Gifts	4,854,016
Investment income (\$774,267 is pledged as security for repayment of bonds)	2,689,100
Interest expense	(4,916,447)
Net nonoperating revenues (expenses)	83,591,748

Income before other revenues, expenses, gains and losses	4,982,120
Gain on sale of capital assets	92,562
Capital contributions	7,367,052
Change in net assets	12,441,734

Net assets, beginning of year	403,974,201
GASB 35 asset adjustment (primarily infrastructure capitalization)	20,229,326
GASB 35 adjustment to record accumulated depreciation	(223,878,841)
GASB 35 summer session adjustment	1,267,271
GASB 35 adjustment classifying the federal portion of loan programs as a liability	(19,381,963)
GASB 35 deferred revenue adjustment for grants and contracts	(6,019,341)
Other prior year additions to and decreases in net assets	(1,475,307)
Net assets, beginning of year, as restated	174,715,346
Net assets, end of year	\$ 187,157,080

The accompanying notes are an integral part of this financial statement.

Montana State University
a component unit of the State of Montana
Consolidated Statement of Cash Flows
As of and For the Year Ended June 30, 2002

Cash flows from operating activities:

Tuition and fees	\$ 70,801,448
Federal grants and contracts	64,183,622
State grants and contracts	7,903,711
Private grants and contracts	17,447,902
Indirect cost recoveries	11,071,132
Sales, services and other operations of educational activities	20,033,549
Sales and services of auxiliary enterprises	29,230,075
Interest on loans receivable	464,727
Compensation and benefits	(179,740,291)
Operating expenses	(83,616,103)
Scholarships and fellowships	(14,674,569)
Loans made to students	(4,389,083)
Loan payments received	3,271,743

Net cash used in operating activities	(58,012,137)
--	---------------------

Cash flows from noncapital financing activities:

Change in property held in trust for others	(772,266)
Direct lending proceeds	29,200,008
Direct lending disbursements	(29,200,008)
State appropriations	79,497,987
Gifts and contributions	4,854,016
Land grant income (Note 2)	1,467,092
Change in restricted cash and investments	33,610

Net cash provided by noncapital financing activities	85,080,439
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Cash flows from capital financing activities:

Purchase of capital assets	(11,406,057)
Proceeds from sale of capital assets	92,562
Proceeds from borrowings	730,288
Debt repayment	(4,711,837)
Interest paid	(5,407,492)

Net cash used in capital financing activities	(20,702,536)
--	---------------------

Cash flows from investing activities:

Purchase of investments	(151,599)
Proceeds from sale of investments	217,915
Investment income	2,857,578

Net cash provided by investing activities	2,923,894
--	------------------

Net change in cash and cash equivalents	9,289,660
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Cash balances at beginning of year	63,191,699
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Cash balances at end of year	\$ 72,481,359
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Montana State University

a component unit of the State of Montana

Consolidated Reconciliation of Operating Loss to Net Cash Used in Operations For the Year Ended June 30, 2002

Operating loss	\$ (78,609,628)
Non-cash income and expense:	
Depreciation and amortization	18,247,814
Provision for uncollectible accounts	675,284
Changes in operating assets and liabilities:	
Accounts and grants receivable, net of allowance	4,920,811
Loans receivable	(1,117,340)
Inventories	(896,534)
Prepaid expenses	(435,873)
Accounts payable and other accrued liabilities	(2,347,266)
Deferred revenue	(287,647)
Compensated absences	1,407,946
Due to federal government	430,296
Net cash provided by (used in) operating activities	\$ (58,012,137)

Schedule of noncash financing and investing activities:

Capital assets contributed to the University	<u>\$ 7,367,052</u>
Capital assets acquired upon issuance of capital lease obligations	<u>\$ 492,089</u>
Bond discount amortized to interest expense	<u>\$ 458,521</u>

The accompanying notes are an integral part of this financial statement.

NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The accompanying financial statements include all activities of the four Montana State University campuses, the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School, collectively referred to as the "University." The four campuses of the University are Montana State University–Bozeman, Montana State University–Billings, Montana State University–Northern (located in Havre) and Montana State University College of Technology–Great Falls. All significant interagency transactions have been eliminated in consolidation.

The University is a modern comprehensive land grant university that serves the state, national and international communities by providing its students with academic instruction, conducting research and other activities that advance fundamental knowledge, and by disseminating knowledge to the people of Montana.

A financial reporting entity, as defined by Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. Accordingly, the financial statements for the University are included as a component unit of the State of Montana Basic Financial Statements, which are prepared annually and presented in the Montana Comprehensive Annual Financial Report (CAFR).

Accounts of University foundations and other affiliated organizations, such as booster and alumni organizations, are not controlled by the University and are not included in the accompanying financial statements. (See Note 17 regarding related party transactions.)

Basis of presentation: In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This was followed in November, 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. The State of Montana has implemented GASB Statement No. 34 as of and for the year ended June 30, 2002. As a component unit of the State of Montana, the University is also required to adopt GASB Statements No. 34 and No. 35. The latter statement was adopted as amended by GASB Statements No. 37 and No. 38. During the year ended June 30, 2002, the University also adopted GASB Statement No. 33, *Accounting and Financial Reporting for non-exchange Transactions*.

The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and capitalizing infrastructure assets; (2) allocating summer school revenues and expenses between fiscal years rather than reporting each summer in one fiscal year; (3) reporting of tuition and fees and other student revenues as well as scholarship and fellowship expense net of scholarship discounts and allowances; and (4) deferring the recognition of grant or contract revenue until funds received have been expended for their restricted purpose.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

GASB. The State of Montana has elected not to apply FASB pronouncements issued after the applicable date.

Significant Accounting Policies:

Cash equivalents – For purposes of the statement of cash flows, the University considers its unrestricted, highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Funds invested in the Short Term Investment Pool with the Montana Board of Investments are considered cash equivalents, as are certain investments held by trustees.

Investments – The University accounts for its investments at fair value in accordance with GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investment income is recorded on the accrual basis. All investment income, including changes in unrealized gain (loss) on the carrying value of investments, is reported as a component of investment income.

Accounts and grants receivable – Accounts receivable consist of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are reported net of estimated uncollectable amounts.

Allowances for uncollectable accounts – The University estimates the value of its receivables that will ultimately prove uncollectable, and has reported a provision for such as an expense in the accompanying financial statements.

Inventories – Inventories include consumable supplies, livestock, and food items and items held for resale or recharge within the University. Inventories are valued using First In First Out (FIFO) or specific identification methods.

Non-current cash and investments – Cash and investments that are externally restricted as to use are classified as non-current assets in the accompanying statement of net assets. Such assets include endowment fund cash and investments.

Capital assets – Capital assets are stated at cost or fair value at date of purchase or donation. Livestock for educational purposes is recorded at estimated fair value. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance and minor renovations are charged to operating expense in the year in which the expense was incurred.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the respective assets, ranging from 3 years for certain software to 75 years for certain infrastructure assets. The University has elected to capitalize museum, fine art and special library collections, but does not record depreciation on those items.

Deferred revenues – Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to events occurring in the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated absences – Eligible University employees earn a minimum of 8 hours sick and 10 hours annual leave for each month worked. Eligible employees may accumulate annual leave up to twice their annual accrual, while sick leave may accumulate without limitation. Twenty-five percent of accumulated sick leave earned after July 1, 1971 and 100 percent of accumulated annual leave, if not used during employment, is paid upon termination.

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

Net assets – Resources are classified in one of the following four net asset categories:

Invested in capital assets, net of related debt – this represents the University's total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets, nonexpendable – this represents net assets subject to externally imposed stipulations that the University maintain those assets permanently. Such assets include the University's permanent endowment funds.

Restricted net assets, expendable – this represents net assets whose use by the University is subject to externally imposed stipulations as to either the use or the period of availability of the assets.

Unrestricted net assets – this represents net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in Note 13.

Classification of revenues –

The University has classified its revenues as either operating or non-operating according to the following criteria:

Operating revenues – include activities that have the characteristics of exchange transactions, including (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state and local grants and contracts and Federal appropriations, and (4) interest on institutional student loans.

Non-operating revenues – include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income.

Use of restricted revenues – When the University maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case-by-case basis. Restricted funds remain classified as restricted until they are expended.

Income taxes – The University, as a political subdivision of the State of Montana, is excluded from Federal income taxes under Section 115(1) of the Internal Revenue Code, as amended. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514. Because tax liabilities are not considered to be material, no provision for income tax expense is reported in the accompanying financial statements.

Scholarship discounts and allowances – Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, state or nongovernmental programs, are recorded as operating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

Accounting changes –

In prior years, the financial information of the Bozeman and Great Falls campuses, as well as the Montana Agricultural Experiment Station, Montana Extension Service and the Fire Services Training School, was presented in a consolidated format, while the Billings and Havre campuses each presented separate audited financial statements. Beginning with the fiscal year ended June 30, 2002, the University prepared one set of consolidated financial statements, including all campuses and agencies, to better reflect the University's organizational structure. The ending net asset balances for the previously-consolidated campuses and agencies as reported at June 30, 2001, totaled \$326,725,519. As a result of the change in reporting entity, beginning net asset balances as reported in the accompanying statements total \$403,974,201. In the accompanying consolidated financial statements, the current year increase in the University's fund balance equals \$12,441,734. The operations of the Billings and Havre campuses contributed \$2,645,752 to the increase.

In May of 2002, the GASB issued Statement No. 39, "Determining Whether Certain Organizations Are Component Units," which is effective for fiscal years beginning after June 15, 2003, and amends Statement No. 14, "The Financial Reporting Entity." The University has not yet determined which of its support organizations qualify for inclusion as a component unit subject to the provisions of Statement No. 39.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash equivalents – These amounts consist of cash held by trustees as well as in the Short Term Investment Pool (STIP) with the Montana Board of Investments. STIP investments are purchased in accordance with the statutorily mandated "Prudent Expert Principle." The STIP portfolio includes asset-backed securities, banker's acceptances, certificates of deposit, commercial paper, corporate and government securities, repurchase agreements and variable rate securities to provide diversification and a competitive rate of return. Cash equivalents are classified as Risk Category #1.

Investments – The University's investments are categorized as to credit risk as either Category I insured or registered, or securities held by the University or its agent in the University's name or other investments not categorized.

Schedule of Cash Equivalents and Investments as of June 30,
2002 at fair value:

Category I -	
U.S. Government securities	\$ 41,331,446
Not Categorized -	
Foundation Pools	511,158
Total Investments	<hr/> \$ 41,842,604 <hr/>

The cost basis of investments held by the State of Montana Board of Investments and by trustees at June 30, 2002, was \$38,463,497 and \$3,288,527, respectively.

Asset-backed securities are collateralized by non-mortgage assets pledged by the issuer and have one or more forms of credit enhancement to raise the quality of the security.

The Foundation Pool consists of certain endowment funds held in common investment pools administered by the MSU-Bozeman and MSU-Northern Foundations.

Securities lending transactions – Under the provisions of state statutes, the Board of Investments has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the Board's securities to broker-dealers and other entities with a simultaneous agreement to

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

return the collateral for the same securities in the future. During the period the securities are on loan, the Board receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the market value of the loaned securities and maintain collateral equal to not less than 100 percent of the market value of the loaned security. The Board retains all rights and risks of ownership during the loan period.

During fiscal year 2002, the Board and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the Board's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the Board could not determine. On June 30, 2002, the board had no credit risk exposure to borrowers, and the University maintained no security lending cash collateral.

Land grant earnings – The University benefits from two separate land grants, totaling 240,000 acres. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862. The second, under the Enabling Act of 1889, granted an additional 50,000 acres for agricultural institutions and 100,000 acres for state normal schools.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The State of Montana, Board of Land Commissioners, administers both grants and holds all endowed assets. The University's land grant assets are not reflected in these financial statements, but are included as a component of the State of Montana Basic Financial Statements that are prepared annually and presented in the Montana CAFR.

Investment income from the grants is currently pledged to the retirement of revenue bond indebtedness, and is reported as revenue in the accompanying financial statements. During January 2002, the Montana University System elected to receive timber sale revenue from trust lands generated after July 1, 2001, as distributable revenue, rather than reinvesting it.

Off-balance sheet risk – The University's investment strategy (like that of most other institutions) incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts reported in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forward, futures, commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counter party to perform according to the terms of the contract. The University's risk of loss in the event of counter party default is typically limited to the amounts recognized in the statement of net assets and is not represented by the contract or notional amounts of the instruments.

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

NOTE 3 – ACCOUNTS AND GRANTS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2002:

Accounts receivable	\$ 5,417,389
Other receivables, including private grants and contracts	4,111,710
Amounts receivable from the federal government	12,405,130
Gross accounts and grants receivable	21,934,229
Less allowance for uncollectable accounts	(1,271,018)
Net accounts and grants receivable	<u>\$ 20,663,211</u>

NOTE 4 – INVENTORIES

Inventories consisted of the following at June 30, 2002:

Bookstores	\$ 875,868
Food services	432,711
Facilities services	222,182
Livestock	681,694
Other	663,638
Total inventories	<u>\$ 2,876,093</u>

NOTE 5 – PREPAID EXPENSES

Prepaid expenses consisted of the following at June 30, 2002:

Leases	\$ 150,000
Library subscriptions	1,160,000
Other items	875,318
Total prepaid expenses	<u>\$ 2,185,318</u>

NOTE 6 – LOANS RECEIVABLE

Student loans made under the Federal Perkins Loan Program constitute the majority of the University's loan balances. Included in non-current liabilities as of June 30, 2002, is \$19,812,258 that would be refundable to the Federal Government should the University choose to cease participation in the Federal Perkins Loan program.

The Federal portion of interest income and loan program expenses are shown as additions to and deductions from the amount due to the Federal government, and not as operating transactions, in the accompanying financial statements.

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

NOTE 7 – CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2002:

	Balance July 1, 2001 (as restated)	Additions	Retirements	Transfers	Balance June 30, 2002
Capital assets not being depreciated:					
Land	\$ 4,212,403	\$ -	\$ -	\$ -	\$ 4,212,403
Museum and fine art	4,289,878	16,275	-	-	4,306,153
Library special collections	3,460,950	-	-	-	3,460,950
Livestock for educational purposes	2,370,910	-	-	-	2,370,910
Construction work-in-progress	3,394,572	9,042,197	-	(2,668,940)	9,767,829
Total capital assets not being depreciated	17,728,713	9,058,472	-	(2,668,940)	24,118,245
Other capital assets:					
Furniture and equipment	73,124,937	5,834,154	(3,967,829)	-	74,991,262
Library materials	48,215,265	2,800,818	(718,359)	-	50,297,724
Buildings	165,422,204	368,929	-	3,718	165,794,851
Building improvements	99,910,080	1,099,796	-	2,594,811	103,604,687
Land improvements	11,497,390	266,199	-	70,411	11,834,000
Infrastructure	30,702,400	-	-	-	30,702,400
Total other capital assets	428,872,276	10,369,896	(4,686,188)	2,668,940	437,224,924
Accumulated depreciation	(221,978,905)	(17,282,249)	4,686,188	-	(234,574,966)
Other capital assets, net	206,893,371	(6,912,353)	-	2,668,940	202,649,958
Intangible assets, net	3,103,327	(495,349)	-	-	2,607,978
Capital Assets, net	\$ 227,725,411	\$ 1,650,770	\$ -	\$ -	\$ 229,376,181

Historical records are not available for all of the University's assets. As such, certain values have been estimated based on insurance values, industry-accepted valuation techniques, or estimates made by University personnel knowledgeable as to the assets' values. Livestock held for educational purposes consist primarily of cattle herds. Breeding cattle are routinely replaced in the herds with their offspring; additions and deductions from the asset cost are not reported for reproducing cattle replaced in this manner.

NOTE 8 – DEFERRED REVENUES

Deferred revenues consisted of the following at June 30, 2002:

Grant and contract funds received in advance	\$ 5,212,619
Summer session payments received in advance	2,191,197
Other deferred revenues	1,082,012
Total deferred revenues	\$ 8,485,828

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30, 2002:

Compensation, benefits and related liabilities	\$ 10,285,924
Accrued interest expense	550,837
Accounts payable and other accrued liabilities	6,857,725
Total accounts payable and accrued liabilities	<u>\$ 17,694,486</u>

NOTE 10 – NON-CURRENT LIABILITIES

Following are the changes in certain non-current liabilities for the year ended June 30, 2002:

	Balance July 1, 2001, as restated	Additions	Reductions	Balance June 30, 2002	Amounts due within one year
Bonds and notes payable, and capital lease obligations					
Bonds payable, net of discount	\$ 96,387,544	\$ 458,521	\$ (3,990,000)	\$ 92,856,065	\$ 4,180,000
Notes and other debt	4,327,239	730,288	(1,321,121)	3,736,406	898,721
Capital lease obligations	237,413	492,089	(317,759)	411,743	149,013
Total bonds, notes and capital lease obligations	<u>\$ 100,952,196</u>	<u>\$ 1,680,898</u>	<u>\$ (5,628,880)</u>	<u>\$ 97,004,214</u>	<u>\$ 5,227,734</u>
Compensated absence liability	<u>\$ 20,606,819</u>	<u>\$ 10,459,061</u>	<u>\$ (9,392,325)</u>	<u>\$ 21,673,555</u>	<u>\$ 9,874,833</u>

Additional information regarding bonds, notes and capital leases is included in Notes 11 and 12.

NOTE 11 – REVENUE BONDS AND NOTES PAYABLE

Revenue bonds payable at June 30, 2002 are as follows:

Series 1987 A

Payable during the year ending
June 30,

	Interest Rate	Principal	Interest	Total
2003	8.000%	<u>\$ 145,000</u>	<u>\$ 4,386</u>	<u>\$ 149,386</u>

Series 1993 A

Payable during the year ending
June 30,

	Interest Rate	Principal	Interest	Total
2003	4.350%	\$ 145,000	\$ 811,487	\$ 956,487
2004	4.450%	115,000	805,770	920,770
2005	4.600%	85,000	801,251	886,251
2006	4.700%	55,000	797,998	852,998
2007	4.750%	15,000	796,342	811,342
2008-2012	5.000 - 5.200 %	13,535,000	3,979,913	17,514,913
2013-2017	5.000 - 5.050 %	15,820,000	2,057,335	17,877,335
Total cash requirements		29,770,000	\$ 10,050,095	<u>\$ 39,820,095</u>
Less unamortized bond discount		<u>(4,208,935)</u>		
Balance, net of discount		<u>\$ 25,561,065</u>		

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

Series 1994 C

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2003	5.100%	\$ 120,000	\$ 118,703	\$ 238,703
2004	5.250%	130,000	112,230	242,230
2005	5.350%	135,000	105,207	240,207
2006	5.500%	140,000	97,745	237,745
2007	5.600%	150,000	89,695	239,695
2008-2012	5.700 - 6.000%	900,000	302,123	1,202,123
2013-2017	6.000%	540,000	41,700	581,700
Total cash requirements		<u>\$ 2,115,000</u>	<u>\$ 867,403</u>	<u>\$ 2,982,403</u>

Series 1996 B

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2003	5.500%	\$ 1,905,000	\$ 589,331	\$ 2,494,331
2004	5.500%	2,055,000	480,464	2,535,464
2005	5.750%	2,205,000	360,615	2,565,615
2006	5.750%	2,370,000	229,123	2,599,123
2007	5.750%	2,555,000	87,573	2,642,573
2008-2012	5.750%	235,000	6,812	241,812
Total cash requirements		<u>\$ 11,325,000</u>	<u>\$ 1,753,917</u>	<u>\$ 13,078,917</u>

Series 1996 D

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2003	4.500%	\$ 585,000	\$ 2,195,591	\$ 2,780,591
2004	4.600%	605,000	2,168,516	2,773,516
2005	4.750%	640,000	2,139,405	2,779,405
2006	4.750%	670,000	2,108,297	2,778,297
2007	4.875%	705,000	2,075,204	2,780,204
2008-2012	5.000 - 5.250 %	3,545,000	9,846,157	13,391,157
2013-2017	5.250 - 5.375 %	4,460,000	8,815,320	13,275,320
2018-2022	5.375%	26,350,000	4,808,532	31,158,532
2023-2027	5.625%	3,950,000	459,844	4,409,844
Total cash requirements		<u>\$ 41,510,000</u>	<u>\$ 34,616,865</u>	<u>\$ 76,126,865</u>

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

Series 1998 E

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2003	4.100%	\$ 245,000	\$ 364,929	\$ 609,929
2004	4.150%	255,000	354,617	609,617
2005	4.200%	265,000	343,763	608,763
2006	4.300%	280,000	332,182	612,182
2007	4.300%	290,000	319,929	609,929
2008-2012	4.350 - 4.700 %	1,660,000	1,390,799	3,050,799
2013-2017	4.800 - 5.000 %	2,105,000	946,522	3,051,522
2018-2022	5.000%	2,695,000	351,179	3,046,179
Total cash requirements		<u>\$ 7,795,000</u>	<u>\$ 4,403,920</u>	<u>\$ 12,198,920</u>

Series 1998 F

Payable during the year ending June 30,	Interest Rate	Principal	Interest	Total
2003	4.100%	\$ 1,035,000	\$ 163,503	\$ 1,198,503
2004	4.150%	1,075,000	119,985	1,194,985
2005	4.200%	1,125,000	74,062	1,199,062
2006	4.300%	1,170,000	25,291	1,195,291
Total cash requirements		<u>\$ 4,405,000</u>	<u>\$ 382,841</u>	<u>\$ 4,787,841</u>

Total, all series

Payable during the year ending June 30,	Principal	Interest	Total
2003	\$ 4,180,000	\$ 4,247,930	\$ 8,427,930
2004	4,235,000	4,041,582	8,276,582
2005	4,455,000	3,824,303	8,279,303
2006	4,685,000	3,590,635	8,275,635
2007	3,715,000	3,368,742	7,083,742
2008-2012	19,875,000	15,525,804	35,400,804
2013-2017	22,925,000	11,860,877	34,785,877
2018-2022	29,045,000	5,159,711	34,204,711
2023-2027	3,950,000	459,844	4,409,844
Total cash requirements	<u>97,065,000</u>	<u>\$ 52,079,427</u>	<u>\$ 149,144,427</u>
Less unamortized bond discount	<u>(4,208,935)</u>		
Balance, net of discount	<u>\$ 92,856,065</u>		

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

Debt refunded, issued, and escrowed –

Issuance of Series A 1987 Bonds, June 15, 1987 Indenture – An original issue of \$2,325,000 dated June 15, 1987, consisting of fully registered bonds without coupons, for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University.

Issuance of Series A 1993 Bonds, November 9, 1993 Indenture – An original issue of \$24,911,720 dated November 9, 1993, consisting of \$3,055,000 of fully registered Current Interest Serial Bonds, plus \$6,036,720 of fully registered Capital Appreciation Bonds, and the remainder of fully registered Current Interest Term Bonds. A total of \$4.3 million was used to partially refund certain eligible portions of the Series B 1985 and Series A 1986 Indentures. The remainder of the proceeds was for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University.

Issuance of the Series C 1994, June 16, 1994 Indenture – On June 16, 1994, the University issued Series C 1994 Revenue Bonds in the amount of \$12,250,000. \$10,517,921 of the proceeds were deposited into an irrevocable trust with an escrow agent to defease eligible portions of the Auxiliary Facilities and Student Building Fees Revenue Bonds Series A 1987, the Facilities Refunding Revenue Bond Series A 1988, and the Facilities Improvement Refunding Revenue Bonds Series B 1985. The remainder was used to fund capital projects.

Issuance of the Series B 1996, October 1, 1996 Indenture – On October 1, 1996, the University issued Series B 1996 Facilities Refunding Revenue Bonds in the amount of \$18,995,000. Proceeds from the sale of the bonds were used to: 1) advance refund \$18,440,000 of outstanding Series A 1986 bonds; 2) pay the bond insurance premium; and 3) pay certain costs associated with the issuance of the bonds. This transaction culminated a forward purchase agreement entered into in August 1993 with certain institutional investors.

Issuance of Series D 1996, August 15, 1996 Indenture – On August 15, 1996, the University issued Series D 1996 Facilities Improvement and Refunding Revenue Bonds in the amount of \$44,530,000, to be used for an advance refunding, construction and renovation of certain facilities, and to pay certain costs associated with the issuance of the bonds. Proceeds from the sale of the bonds were used to: 1) pay the costs of acquisition, construction, renovation, improvement, furnishing, and equipping certain facilities; 2) pay the bond insurance premium; and 3) pay certain costs associated with the issuance of the bonds. The bonds are fully insured by the Municipal Bond Insurance Association (MBIA).

The Series D 1996 bonds (and all subsequent bonds) are payable from and secured by a parity first lien on and pledge of certain gross and net revenues, which comprised: 1) all student building fees and certain student union use fees assessed against students attending the University; 2) net student housing system pledged revenues, after the payment of operation and maintenance expenses of such facilities; 3) certain rental and other income generated by the pledged facilities; 4) a HUD debt service grant; 5) lease rentals from the Museum of the Rockies; 6) all Land Grant income; 7) certain student athletic fees; 8) certain Health & Physical Education fees; 9) MSU- Bozeman Fieldhouse fees; and 10) capitalized interest and earnings on certain funds created under the Indenture.

Issuance of the Series E 1998, June 1, 1998 Indenture – On June 1, 1998, the University issued Series E 1998 Facilities Improvement Revenue Bonds in the amount of \$8,255,000. Proceeds from the sale of the bonds were used to: 1) finance the construction, improvement, repair, replacement, expansion, renovation, furnishing, and equipping of the Reno H. Sales Stadium at the Bozeman campus; 2) pay the premiums for the municipal bond insurance policy; and 3) pay certain costs associated with the issuance of the Series E 1998 bonds. Bonds maturing on or before November 15, 2008, are not subject to optional redemption prior to maturity. The MBIA unconditionally and irrevocably guarantees all bonds.

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

Issuance of the Series F 1998, June 1, 1998 Indenture – On June 1, 1998, the University issued Series F 1998 Facilities Improvement Revenue Bonds (Information Technology Project), in the amount of \$8,175,000. Proceeds were used for the purchase, installation and implementation of the Banner2000 software and required equipment, training and support. The bonds are unconditionally and irrevocably guaranteed by the MBIA, and are not subject to optional redemption prior to maturity.

Defeased bonds – In prior years, the University defeased certain bond issues by placing proceeds of new bonds in an irrevocable trust. The proceeds, together with interest earned thereon, will be sufficient for future debt service payments on the refunded issues. Accordingly, neither the trust account assets nor the liability for the defeased bonds are included in the University's financial statements. Certain of the transactions met the qualifications for legal defeasance, while others are considered to be defeased in substance. At June 30, 2002, \$7,449,000 of bond principal outstanding is considered to be defeased in substance.

Notes payable –

The University participates in the State's InterCap loan program, and may also enter into indebtedness with commercial and other private lenders. InterCap loans contain a variable interest rate, which is based on the underlying bond rate of the Montana Board of Investments InterCap bonds, and is adjusted annually.

Scheduled maturities of notes payable are as follows:

Payable during the year ending June 30,	Principal	Interest	Total
2003	\$ 898,721	\$ 113,291	\$ 1,012,012
2004	793,262	80,274	873,536
2005	726,875	57,166	784,041
2006	532,414	37,190	569,604
2007	292,058	22,436	314,494
2008-2012	493,076	26,672	519,748
Total	\$ 3,736,406	\$ 337,029	\$ 4,073,435

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

Notes payable consisted of the following at June 30, 2002:

Description	June 30, 2002 Interest Rate	Maturity Date	Principal Outstanding
<i>InterCap:</i>			
Agriculture Bioscience Building	3.15%	08/15/09	\$ 493,735
Information Technology Center Software	3.15%	08/15/02	20,477
Information Technology Center Telephone Upgrade	3.15%	02/15/07	172,626
Student Weight Room	3.15%	02/15/11	354,185
Athletics Stadium Sign, Scoreboard and Sound System	3.15%	08/15/05	305,121
Information Technology Center Servers	3.15%	02/15/04	32,785
Athletics Department Laundry Equipment	3.15%	02/15/04	8,209
Arts & Architecture	3.15%	02/15/07	71,472
Software and Software Licenses	3.15%	02/15/06	296,842
Land Resources & Environmental Sciences Post Equipment	3.15%	08/15/05	20,272
University Printing Equipment	3.15%	02/15/05	29,345
KUSM Vehicle	3.15%	02/15/06	20,847
SHS Blood Analyzer	3.15%	02/15/07	28,700
College of Technology Process Technology	3.15%	08/15/08	180,443
Special Education Building	3.15%	08/15/05	41,575
Renovate Gymnasium & Swimming Pool	3.15%	08/15/03	115,622
Science Lab Renovation	3.15%	02/15/06	144,580
Energy Conservation	3.15%	08/15/08	266,005
Parking Lot/Road Improvements	3.15%	08/15/07	93,111
Electrical Loop	3.15%	08/15/10	159,449
Computers	3.15%	08/15/02	26,062
Subtotal, InterCap principal outstanding			2,881,463
<i>Norwest Bank:</i>			
Renne Library	4.10%	02/01/05	33,164
Athletic Equipment	8.70%	03/25/03	5,642
Subtotal, Norwest Bank principal outstanding			38,806
<i>GE Capital:</i>			
Library Computing Equipment	5.78%	01/01/04	16,487
Architecture	5.50%	03/01/04	3,631
Great Falls Library 1	5.90%	04/01/04	5,399
Great Falls Library 2	4.99%	09/01/04	4,225
Bozeman Library	4.99%	09/01/04	27,802
Subtotal, GE Capital principal outstanding			57,544
Key Municipal Finance, Renne Library:	4.10%	02/01/05	258,867
Lease Innovations, Athletic Video Equipment:	8.505%	07/01/05	115,832
Accutitle Incorporated, 3009 Yucca Escrow Agreement	7.75%	10/27/04	49,073
<i>Cisco:</i>			
Information Technology Services Equipment	5.75%	12/20/05	104,103
Information Technology Services Cable	5.75%	06/20/06	182,171
Subtotal, Cisco principal outstanding			286,274
<i>MSU-Northern Foundation:</i>			
Athletics Wrestling Van	6.50%	10/01/04	6,609
Voice Mail System	6.50%	10/15/02	17,899
Student Services Office Equipment and Carpeting	6.50%	10/01/04	14,922
Athletics Volleyball Van	6.50%	10/01/05	9,117
Subtotal, MSU-Northern Foundation principal outstanding			48,547
Total note principal outstanding			\$ 3,736,406

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

NOTE 12 - CAPITAL LEASE OBLIGATIONS

Capital Leases: The University has future minimum lease commitments for capital lease obligations consisting of the following at June 30, 2002:

2003	\$	170,798
2004		158,626
2005		106,596
2006		10,706
2007		5,939
Total payments		452,665
Less amount representing interest		(40,922)
Principal balance outstanding	\$	<u>411,743</u>

NOTE 13 – UNRESTRICTED NET ASSETS

At June 30, 2002, the University's unrestricted net assets consisted of the following:

General operating funds	\$	(13,399,109)
Facility renewal and replacement funds		14,576,002
Student services and auxiliary department reserves, including inventories		12,359,591
Indirect cost recoveries and research-related funds		10,409,048
Instruction, academic support and public service department funds		6,659,515
Unexpended plant funds		3,769,027
Retirement of indebtedness funds		2,343,454
Facilities services balances, including inventories		2,312,213
Employer-provided benefits reserves		1,668,422
Agricultural Experiment Station and Extension Services funds		1,456,978
Administration and finance department funds		1,333,162
Student organization funds		1,031,945
Livestock inventories		681,694
President's office funds		184,273
Other funds		169,008
Total unrestricted net assets	\$	<u>45,555,223</u>

The University has not funded the compensated absences balance related to its unrestricted funds, creating the negative net asset balance of \$13.4 million shown above. Other funds have largely been earmarked for minor and major equipment replacement, facility renovation, operating contingencies, and maintenance and renovation projects in progress as of June 30.

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

NOTE 14 – MATRIX OF NATURAL AND FUNCTIONAL OPERATING EXPENSES

The University's operating expenses consisted of the following during the year ended June 30, 2002:

Type and classification of operating expense:	Instruction	Research	Public Service	Academic Support	Student Services	Institutional Support	Plant-related Expenses	Auxiliary Enterprises	Other Classifications	Total
Compensation	\$ 51,502,720	\$ 34,543,450	\$ 13,917,665	\$ 11,046,819	\$ 9,552,629	\$ 7,322,437	\$ 4,971,952	\$ 10,900,559	\$ -	\$ 143,758,231
Benefits	13,085,001	7,551,858	3,902,014	2,884,662	2,477,831	2,596,978	1,670,769	2,506,817	-	36,675,930
Contracted Services	3,289,331	9,076,520	3,123,471	1,002,327	2,595,688	457,119	2,580,384	1,871,989	-	23,996,829
Supplies	2,569,768	7,213,886	1,382,019	1,160,381	1,311,151	399,152	3,287,315	3,947,862	-	21,271,534
Communications	878,002	491,314	521,188	371,911	806,025	553,862	140,871	484,713	-	4,247,886
Travel	1,432,486	2,524,049	1,172,993	264,558	1,495,390	184,709	55,512	92,967	-	7,222,664
Utilities	9,150	210,300	18,063	4,816	78,914	161	4,426,391	1,953,488	-	6,701,293
Cost of Sales	63,288	148,264	54,189	32,545	99,877	-	32,328	4,242,768	-	4,673,259
Maintenance	366,391	1,189,384	150,959	236,986	114,248	103,963	3,853,204	2,096,321	-	8,111,456
Other Expenses	926,605	555,033	1,951,080	852,017	910,961	1,354,597	581,875	262,715	-	7,394,883
Rent	110,898	298,422	144,512	99,796	144,642	136,559	513,117	331,137	-	1,779,083
Scholarships and fellowships	-	-	-	-	-	-	-	-	14,674,569	14,674,569
Depreciation and amortization	-	-	-	-	-	-	-	-	18,247,814	18,247,814
Total	\$ 74,233,650	\$ 63,802,480	\$ 26,338,153	\$ 17,956,818	\$ 19,587,357	\$ 13,109,536	\$ 22,113,718	\$ 28,691,336	\$ 32,922,383	\$ 298,755,431

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

NOTE 15 – RETIREMENT PLANS

University employees eligible to participate in retirement programs are members of either the Public Employees' Retirement System (PERS), the Game Wardens and Peace Officers Retirement System (GWPORS), Teacher's Retirement System (TRS) the Optional Retirement Program (ORP), Federal Employees' Retirement System (FERS) or the U.S. Civil Service Retirement System (CSRS). ORP commenced in January 1988, and is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Effective July 1, 1993, ORP was made the mandatory retirement plan for new faculty and administrative staff. The Pension Benefit Obligation is not available on an individual agency basis, but is available on a statewide basis from the Montana Retirement systems or TIAA-CREF.

ORP - The ORP is a defined contribution plan, established under authority of Title 19, Chapter 21, MCA. Benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. The University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions. Annual reports that include financial statements and required supplemental information on the plan are available from TIAA-CREF, 730 Third Avenue, New York, New York 10017-3206, Phone 1-800-842-2733.

TRS - This system was established in 1937 and is governed by Title 19, Chapter 4, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for accrual benefits is 1/60 times creditable service times average final compensation. Rights are vested after 5 years of creditable service, and vested employees may retire at or after age 50 and receive reduced retirement benefits. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Teachers' Retirement Division, P.O. Box 200139, Helena, MT 59620-0139.

PERS - This system was established in 1945 and is governed by Title 19, Chapter 3, MCA, as a cost-sharing multi-employer defined benefit pension plan providing retirement services to substantially all public employees. Benefit eligibility is age 60 with at least 5 years of service, age 65 regardless of service, or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by multiplying 1/56 by the number of years of service by the final average salary, unless the employee has 25 years of service in which case the multiplier is 1/50. Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Administration, P.O. Box 200131, Helena, MT 59620-0131.

GWPORS – This retirement system was established in 1963 and is governed by Title 19, Chapter 8, MCA, to provide retirement services for all persons employed as game wardens and peace officers. Effective July 1, 1997, this system became the mandatory system for campus security officers employed by the Montana University System, unless they already held membership in another State retirement system. Participants are eligible to retire after completing 20 years of service and reaching age 50. Early retirement with a reduced benefit may be taken after completing 5 years of service and reaching 55 years of age. The retirement formula is 2% of the final average salary per year of service. Members' rights become vested after 5 years of service. Additional information or a separate financial statement can be obtained from the State of Montana, Department of Administration, Public Employees' Retirement Administration, P.O. Box 200131, Helena, MT 59620-0131.

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

FERS - This plan commenced in 1986 and is available to Federal employees joining the Extension Service staff without a break in service. This retirement plan contains defined benefit plan components, a Basic Benefit Plan and Social Security, and a defined contribution component, the Thrift Savings Plan (TSP). Basic benefits can be received at age 55 with as little as 10 years of service, and minimum retirement benefits at age 62 with 5 years of service. The formula for basic benefits is 1% of the highest consecutive three-year-average salary multiplied by the number of years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees joining the Extension Service staff without a break in service. CSRS is a defined benefit plan. The retirement benefits are based upon the highest consecutive three-year-average salary. Retirees are eligible for cost of living adjustments the year after retirement. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service.

Pension data for the year ended June 30, 2002 is as follows:

	PERS	TRS	ORP	CSRS	FERS	GWPORS
Covered payroll	\$ 40,044,137	\$ 28,309,341	\$ 59,145,441	\$ 3,061,446	\$ 716,198	\$ 234,417
Total Payroll	\$ 149,379,366	\$ 149,379,366	\$ 149,379,366	\$ 149,379,366	\$ 149,379,366	\$ 149,379,366
Employer contributions	\$ 2,763,046	\$ 2,114,707	\$ 2,931,248	\$ 167,564	\$ 80,593	\$ 21,098
% of covered payroll	6.900%	7.470%	4.956%	5.470%	11.250%	9.000%
Employee contributions	\$ 2,763,046	\$ 2,024,119	\$ 4,166,204	\$ 132,207	\$ 5,511	\$ 23,602
% of covered payroll	6.900%	7.150%	7.044%	4.320%	0.770%	10.560%
ORP contribution to TRS	-	\$ 2,389,476	-	-	-	-
% of ORP contribution to TRS	-	4.040%	-	-	-	-

Amounts contributed to retirement plans during the year ended June 30, 2002 were equal to the required contributions each year. The amounts contributed by the University and its employees were:

Year ended June 30,	PERS	TRS	ORP	CSRS	FERS	GWPORS
2000	\$ 4,896,636	\$ 5,853,589	\$ 6,111,979	\$ 321,373	\$ 80,383	\$ 46,631
2001	\$ 5,164,950	\$ 6,010,806	\$ 6,435,645	\$ 311,847	\$ 89,306	\$ 43,578
2002	\$ 5,526,092	\$ 6,528,302	\$ 7,097,452	\$ 299,771	\$ 86,104	\$ 44,700

NOTE 16 – COMMITMENTS AND CONTINGENT LIABILITIES

Operating leases – The University has commitments under non-cancelable operating leases as follows:

Payable during the year ending	
June 30,	
2003	\$ 445,617
2004	399,959
2005	374,860
2006	124,233
2007	1,977
2008-2010	4,764
Total	<u>\$ 1,351,410</u>

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

As of June 30, 2002, the University had initiated construction on the following major capital and maintenance projects:

Description	Amount Expended through June 2002	Remaining Amount Authorized	Total Expected Project Cost
Heat Plant Seismic	25,254	152,153	177,407
Gaines Hall Labs	380,610	184,720	565,330
Lewis Hall Bsmt	76,654	156,720	233,374
Steam & Condensate Extn	9,983	140,829	150,812
Renne Library Renovations	5,872,290	1,652,202	7,524,492
Records Storage Facility	374,904	67,560	442,464
Roberts Hall Roof R&R	725,662	124,338	850,000
Romney Gutter Repairs	177,884	20,116	198,000
Gaines Hall Design	627,167	1,372,833	2,000,000
RPLC Linfield South Roof	14,673	216,327	231,000
Renovate Extr Linfield & MT	97,202	1,352,798	1,450,000
Animal Bioscience Facility	-	5,000,000	5,000,000
SARC Renovaton	-	1,250,000	1,250,000
EARC Renovation	-	210,000	210,000
NARC Renovation	-	200,000	200,000
CARC Renovation	8,251	171,749	180,000
NWARC Renovation	-	160,000	160,000
L Johnson Lecture Reroof	-	235,637	235,637
Replace Huffman Furnace	17,388	7,612	25,000
MSU Farm OHE Relocation	19,792	128,458	148,250
Montana Hall Seismic Repairs	36	44,964	45,000
Herrick Comprehensive Study	-	150,000	150,000
Billings ADA Projects	5,055	75,541	80,596
Billings Backup Propane System	63,518	105,502	169,020
Billings COT Preliminary Study	42,220	7,780	50,000
Renovate Billings Liberal Arts Building	979,268	2,535,796	3,515,064
Northern Cowan Hall Windows	544,059	21,231	565,290
Cowan Hall Heating and Air Conditioning	290,624	1,852,376	2,143,000
Totals	10,352,494	17,597,242	27,949,736

Legal actions – The University is a defendant in legal actions arising in the normal course of business. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from these actions will not have a material effect on the University's financial position, results of operations or cash flows.

Refundable grants – The University receives grants and other forms of reimbursement from various Federal and State agencies. These funds are subject to review and audit by cognizant agencies. The University does not expect any material adjustments or repayments to result from such audits.

NOTE 17 – RELATED PARTIES

The University is a component unit of the State of Montana. The accompanying financial statements include only the activities, funds and accounts of the University. Private nonprofit organizations with relations to the University include MSU-Bozeman Foundation, MSU-Billings Foundation (including the Sting Athletic Association and the Alumni Association), MSU-Northern Foundation, MSU-Bozeman

Montana State University
Notes to Consolidated Financial Statements
As of and for the Year Ended June 30, 2002
(continued)

Alumni Association, MSU-Bozeman Athletic Scholarship Association, MSU-Bozeman Bookstore, MSU-Bozeman Friends of KUSM, MSU-Billings Friends of KEMC, Museum of the Rockies, Inc., and The Research and Development Institute, Inc.

The foundations and associations operate exclusively for the purposes of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with, the University.

During the year ended June 30, 2002, Foundations provided to the University \$ 5,034,445 in scholarship and other gift support. The University provided to its Foundations \$954,546, which included payments for contracted services, capital campaign support, and operating leases, as well as renovations of leased space valued at \$680,783. Friends of Montana Public Television provided \$408,256 and Friends of KEMC Public Radio provided \$395,445 in support to the University's television and radio stations. The Museum of the Rockies, Incorporated, paid \$300,000 to the University for facility rental, and provided \$1,298,687 in support to the University, primarily as reimbursement for Museum staff salaries and benefits. The MSU- Bozeman Athletic Scholarship Association provided \$371,000 in support of athletic programs.

The University foundations are independent corporations formed for the purpose of fundraising and receiving funds for the sole benefit of the University. The majority of the assets held by the foundations are restricted by donors for specific purposes, and are not recorded in the accompanying financial statements until they are received by the University in the form of gifts.

NOTE 18 – SUBSEQUENT EVENTS

During the year ended June 30, 2002, the University received approval from the Board of Regents to borrow up to \$500,000 for building network wiring and other related capital purchases. In October of 2002, the University drew \$204,000 for the project.

In September of 2002, The Research and Development Institute, Inc. (RDI) was dissolved. RDI was a not-for-profit enterprise operating to support and promote the educational, research, development and public service objectives of the Bozeman campus of the University. During the fiscal year ending June 30, 2003, certain assets of RDI will be donated to the University and certain operations of RDI will be managed by University staff. In its June 30, 2001, unaudited financial statements, RDI reported revenues of \$2.5 million, expenses of \$2.7 million, and net assets of \$1.3 million.

Effective July 1, 2002, eligible new employees of the University are defaulted into the PERS defined benefit plan and have one year from their date of hire to elect whether to stay in the PERS defined benefit plan, enroll in the ORP plan, or enroll in the PERS Defined Contribution Plan.



RECEIVED

JAN 23 2003

LEGISLATIVE AUDIT DIV.

Office of the President

211 Montana Hall
P.O. Box 172420
Bozeman, MT 59717-2420

Telephone (406) 994-2341
Fax (406) 994-1893

January 23, 2003

Mr. Scott A. Seacat
Legislative Auditor
Legislative Audit Division
State Capitol, Room 135
P.O. Box 201705
Helena, MT 59620-1705

Scott
Dear Mr. Seacat:

Montana State University would like to thank the Legislative Audit Division's efforts in regards to the Financial Audit for the fiscal year ended June 30, 2002. I particularly appreciate your commendation of MSU's staff involved in this process. Such independent observations reinforce the value of the audit process.

Sincerely,

Geoffrey Gamble
Geoffrey Gamble
President

GG/sm